

4. Banking Supervision

Pursuant to the Central Bank of the Republic of China (Taiwan) Act, the Bank conducts target examinations to ensure effective enforcement of policies related to monetary, credit, and foreign exchange affairs, establishes an offsite review system and a financial stability evaluation framework to systematically monitor, analyze, and evaluate the potential sources of risks in order to adopt appropriate policies and measures in a timely manner to achieve its mandate of financial stability.

Implementing On-Site Examinations

Target examinations in 2010 inspected the handling of counterfeit money by financial institutions, housing loans in Metropolitan Taipei, risk management of mortgage lending, housing credit information disclosure, compliance with respect to required reserves, the 921 earthquake relief loans, spot and forward foreign exchange transactions, foreign exchange remittances, the operation of foreign currency exchanges by authorized money exchangers, and correctness of reporting to the Bank, etc.

Following up on Banks' Compliance with Examination Findings

In light of the Bank's examination findings and the FSC's examination findings related to the Bank's business or regulations, the Bank continued to monitor what the examined financial institutions had improved, to urge the financial institutions to rectify related deficiencies, and thus to ensure the successful implementation of the Bank's policies.

Offsite Review

Based on financial conditions and amendments to relevant laws and regulations, the Bank examines and amends as necessary the format of periodical reports submitted by financial institutions. The submitted reports are audited in order to obtain updated information, and the operational situation of financial institutions is analyzed via the following:

- (1) To strengthen financial institutions' liquidity management, the liquidity analysis and evaluation in domestic banks' and bills finance corporations' CARSEL system were enhanced with newly-added warning signals.
- (2) To achieve better analysis via report auditing, warning codes and analytical items were established to indicate the ratio of individual or a single enterprise's total credit balance to bank equity.
- (3) In accordance with the amendment of the Regulations Governing Foreign Bank Branches and Representative Offices, report auditing with regard to declaration statements and its related

analytical and evaluation items for foreign banks' Taiwan branches were newly added.

- (4) In conjunction with relevant laws and regulations for bills finance companies, the warning codes and analytical items for the limits on the endorsed/guaranteed amount and on the primary liability of the bills finance companies, were amended accordingly.

Financial Institution Information Transparency

Moreover, the Bank regularly compiles and publishes various financial institution statistics and the most up-to-date financial regulations. The Bank also discloses related information on its website. Therefore, the transparency of the operation of financial institutions has increased, reinforcing market discipline.

Financial Stability Evaluation

The Bank compiles financial soundness indicators so that the relevant authorities, market participants and the public are kept informed regarding the status and sources of financial system risks in Taiwan. In 2010, the fourth financial stability report was issued. This will also promote cross-border exchanges of information on banking supervision.

International Cooperation of Financial Supervision

The Bank actively engages in international cooperation of financial supervision. The Bank assigned a researcher for the SEACEN Centre research project on "Addressing Risks in Promoting Financial Stability", answered questionnaires regarding financial stability risk, and provided the Centre with related information for the SEACEN members' "College of Supervisors".

Other Important Measures

- (1) The Bank collaborated with academia in the research project titled "Quantified Monitoring of Taiwanese Financial System's Risks" in order to understand the risk source(s) and factors of Taiwanese financial system's risks, and to establish effective quantified monitoring indicators.
- (2) The Bank published a special issue on the global financial crisis.